

Baby Boomers Reach Retirement:

The Impact on Your IRA Program

2005

Introduction

The “forever young,” “don’t trust anyone over 30,” “individualistic,” generation is just two years shy of eligibility for social security, with the oldest among them hitting age 60 in 2006. Some started early retirement at age 50 or 55 using their employer-sponsored retirement plan savings. Many more are awakening to the need to save for retirement and are beginning intensive savings programs. The rollover market from 401(k) plans and other employer-sponsored retirement plans is about to explode. The baby boomers are set to push your IRA program systems to a new level. Are you ready?

Baby boomers have changed and challenged the U.S. at each stage of their lives—from filling hospitals as newborns in the late 1940s, to crowding schools to overcapacity in the 1950s and 1960s, to creating a housing boom in the 1970s. As a nation, at each stage of the boomers’ evolution, we were not quite ready for them. That wave is now poised to bring great change and opportunity to the retirement plan industry in general, and to IRA programs in particular.

Baby Boomers’ Retirement Savings

A lot of the baby boomers’ impact comes from their sheer numbers. Seventy-six million Americans can call themselves baby boomers—anyone born between 1946 and 1964. That’s a third of the U.S. population and 46 million of them will retire between now and 2013.¹

Contrary to popular opinion, baby boomers have saved a lot of money for retirement. The chart at the right illustrates the baby boomers’ projected wealth at age 65. As long as you concentrate on the middle and upper tiers, things look good both for baby boomers and the financial organizations that will serve them. With the average net worth of families where the head of the household is between the ages of 45 and 54 at \$419,073, the baby boomers do have money.²

Estimated Average Net Worth of the Baby Boomers at Age 65, by Decile

First Decile	\$20,148
Second Decile	\$44,448
Third Decile	\$96,410
Fourth Decile	\$189,759
Fifth (Median) Decile	\$277,937
Sixth Decile	\$385,199
Seventh Decile	\$558,571
Eighth Decile	\$877,198
Ninth Decile	\$1,477,138
Top Decile	\$6,792,425

Note: Does not include Social Security wealth.

Source: What if the Baby Boomers Had Personal Retirement Accounts? An Analysis of Retirement Security for Americans Age 40-58, Kirk A. Johnson, Ph.D., Heritage Foundation, Center for Data Analysis Report #05-02, 2005.

¹ The Future of Advice, Tiburon Strategic Advisors, 2005.

² *A Soft Landing for the Boomers?* Fred Brock, New York Times, July 13, 2003.

In fact, baby boomers will have more money in retirement than their parents or grandparents—even after inflation adjustments.³ Baby boomers, however, are not expected to do as well as their parents when the preretirement standard-of-living is compared to the expected standard-of-living during retirement. That's because there is a perception that baby boomers are not as frugal as their parents and may have to cut back a bit more on expenses in retirement than their parents did. This presents an opportunity to convince baby boomers of the need to save more.

Since 1974, IRAs and the gradual switch from employer-sponsored pension plans to salary deferral plans have significantly influenced the baby boomers' retirement picture. Fifty-four percent of all workers age 45 to 55 participate in some kind of retirement plan at work.⁴ And the participation numbers jump when you start to categorize employees: 64 percent of full-time wage and salary workers participate in a retirement plan, and over 70 percent of wage and salary workers who make more than \$50,000 per year participate.⁵

An American Association of Retired Persons (AARP) study further supports that baby boomers are using retirement plans to save. Seventy percent of baby boomers are currently funding IRAs, 401(k) plans, or other retirement plans.⁶ This represents a vast amount of savings—with one estimate of total assets held in all retirement plans exceeding \$11 trillion.⁷ Boomer participation in retirement plans at work is significant for financial organizations offering IRAs because as the baby boomers move from work to retirement, a lot of that money will go from employer-sponsored retirement plans to IRAs.

³ *Golden Years, Is Retirement Obsolete?*, Minneapolis Star Tribune, October 2, 2005.

⁴ EBRI Issue Brief No. 296, Employee Benefits Research Institute, October 2005.

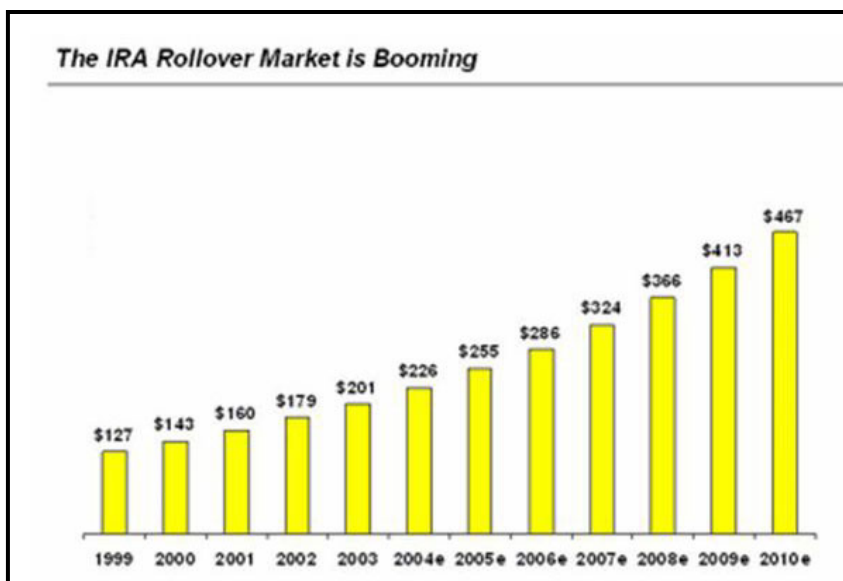
⁵ EBRI Issue Brief No. 296.

⁶ *Baby Boomers Envision Retirement II, Survey of Baby Boomers' Expectations for Retirement*, AARP, May 2004.

⁷ Facts from EBRI, Employee Benefit Research Institute, April 2005.

The Coming IRA Rollover Wave

As baby boomers retire and roll assets from employer-sponsored retirement plans to IRAs, the rollover market is expected to grow from \$127 billion in 1999 to \$467 billion in 2010.⁸ After 2010, approximately \$500 billion will annually roll into IRAs.⁹



Source: The Future of Advice, Tiburon Strategic Advisors, LLC

This growth in rollovers is good news for IRA programs and provides compelling reasons for financial organizations to plan now to offer IRA investment solutions.

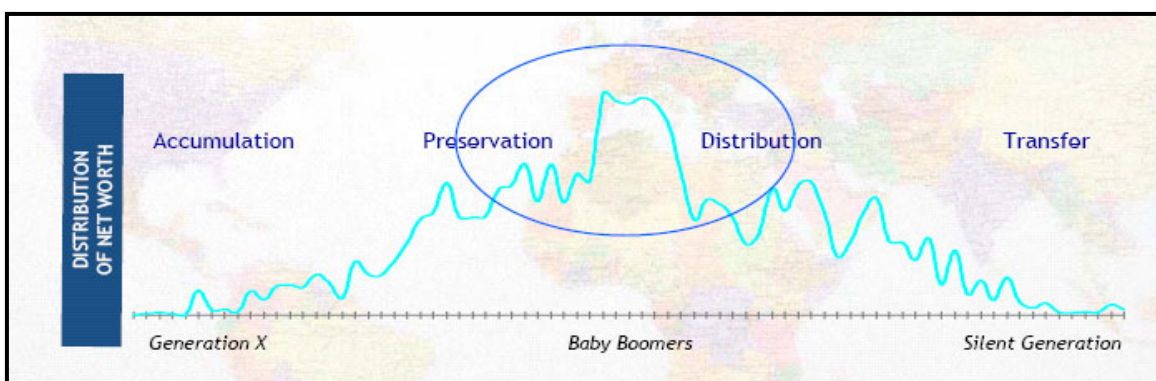
⁸ *The Future of Advice*, Tiburon Strategic Advisors, 2005.

⁹ *Id.*

The Shift From Asset Growth to Asset Preservation and Income

The rollover wave will bring along with it other trends that impact IRA programs.

Asset Preservation and Income. Since the passage of IRA legislation, people have focused on the savings aspect of IRAs. IRA marketing generally emphasized growth or tax benefits as key buying criteria. Although the savings aspects of IRAs are still important to baby boomers, future marketing messages should highlight asset preservation, income generation, planning, and convenience. Asset preservation will likely be an especially effective message during the early retirement years when boomers will be concerned about making sure their nest egg lasts through retirement.



Source: Cerulli Associates, Federal Reserve

Of course, current IRA providers have experience with asset preservation and distribution from customers in the previous generation—the boomers’ parents. It would be a mistake, however, to assume that this experience alone will be enough to satisfy the coming wave of baby boomers; the baby boomer generation is much larger and it is anticipated that they will have higher expectations for retirement.

The overall trend toward asset preservation and income should bode well for Federal Deposit Insurance Corporation (FDIC)-insured financial organizations that offer guaranteed interest rates. An FDIC-insured Certificate of Deposit (CD) is a relatively safe investment that provides an income stream and should prove a more popular choice for baby boomers in their early retirement years. This tried and true message of banks, thrift institutions, and credit unions should reach a more receptive audience than it has in the last couple of decades. FDIC-insured institutions should expect more IRA business from the baby boomers moving forward.

Convenience and Service. As baby boomers draw on their lifetime savings, convenience and service will become more important. These are areas where financial organizations have historically excelled. It is time to capitalize on this core competence by highlighting financial organizations’ local branches, automated teller machine access, on-line services, and telephone support.

Multiple Products. Financial organizations that enjoy deep relationships with their IRA customers should see stability and growth in their IRA business as IRA owners naturally look to them to help simplify their lives. Future demand for services like automatic periodic transfer of amounts from an

IRA into a customer's checking account to satisfy spending, or required distribution needs will grow in demand. The demand for stepped CDs and other savings products that offer secure and guaranteed payments at known dates will also grow. Baby boomers are likely to want multiple solutions from the same organization for convenience and peace of mind.

Trust Department. The baby boomers' needs will cross the threshold into the trust department, as well. Planning for retirement, planning during the actual retirement years, and estate planning services will become more important to baby boomers throughout their retirement years. An interesting note for trust departments—baby boomers stand to gain a lot from a coming “inheritance boom” that is estimated to exceed \$10.4 trillion.¹⁰

Baby Boomers' Impact on IRA Administration

The baby boomers' imminent retirement will also affect financial organizations' IRA departments in a number of technical areas where they need to prepare.

Age 70½ Required Minimum Distributions. Although more than ten years stand between the oldest boomers and required minimum distributions, it's not too early for financial organizations to begin planning and offering distribution services. Some baby boomers are taking distributions now to avoid larger distributions when they reach age 70½.

From an IRA owner's perspective, planning can often change how age 70½ distributions are taken. In some cases, it may make sense to begin distributions prior to the required date to potentially lower overall income taxes by stretching the distributions over additional years. Early planning may also allow IRA owners time to adjust other investment balances and choices to offset required IRA distributions at age 70½. When the boomers reach this age, financial organizations need to ensure they have efficient systems in place to notify IRA owners, assist them with determining their distribution amounts, and provide them with a convenient means to implement the distributions.

Though these are current functions at most financial institutions, the demand for these services will increase and baby boomers may expect more options than many IRA providers currently offer. Historically, some financial organizations provide informational brochures and worksheets, leaving IRA owners to determine their own distribution amounts. Others provide a more personal service, often guiding IRA owners through the whole process. Baby boomers will likely demand more service than a handout, but there may be too many of them to offer one-on-one service. Fortunately, technological innovations in the last few years, with Bankers Systems' IRA Management Center serving as a good example, will help provide personal but more broad-based customer service.

Beneficiary Designations. As baby boomers face the prospect that they will not live forever, they are likely to seek estate-planning services. IRA owners may change current beneficiary designations to reflect changes in their lives and many will want to name a trust as a beneficiary. Financial organizations may find it beneficial to offer these services.

¹⁰ *Questions about the Inheritance Boom*, American Banking Journal, 1996.

Though changing a beneficiary seems to be a basic process, problems may arise if changes are made that do not comply with state law, or if designation changes are not documented and tracked properly. Mistakes happen more than they should and sometimes with expensive consequences for an IRA provider. Now is a good time to review and reinforce systems for the naming and tracking of beneficiaries and perhaps to move to electronic tracking. The more high-quality services you can provide now, the more likely you will be able to retain the baby boomers' accounts through their later retirement years, when you may have to compete with their natural desire to reinvest.

Death Distributions. Though the oldest of the baby boomers may enjoy over a 22-year life expectancy, IRA administrators will inevitably see a steady rise in IRA distributions due to death. Properly assisting IRA death beneficiaries requires an understanding of the options available to them, which often seem complex and confusing. Financial organizations have time to prepare for staff and establish systems now, before it becomes a serious challenge.

Analysis and Preparation

The exact impact of the baby boomers on IRA programs is difficult to predict because the baby boomers have a history of changing systems in unanticipated ways. However, as IRA asset growth increases, baby boomers are expected to start concentrating on asset preservation and income. Financial organizations will see an increased demand for convenience that includes linking their IRA services with other financial services. Estate planning will change IRA administration as will a necessity for an efficient and compliant process for handling required minimum distributions.

Now is the time for your financial organization to begin planning for these coming changes. Some key steps to consider include:

- **IRA Marketing Program.** Review your marketing program. Are you sending the right message to attract the rollover dollars? Are you focusing on what the baby boomers will perceive as key buying criteria?
- **IRA Administration.** Do you have the systems and processes in place to handle the increase in demand for services? Have you switched manual processes to electronic? Do you have the tools in place to provide the services needed for age 70½ required distributions? Are you taking advantage of new technology and the tools that technology offers?
- **Link with Multiple Solutions.** Have you considered how your other solutions fit with the IRA solution from a baby boomer's perspective? How can you package your IRA products and services to provide convenience and value to a baby boomer?

Conclusion

The coming wave of retiring baby boomers will influence your IRA program. Now is the time to prepare for this change and the potential, if not inevitable, growth of your IRA business.

